



# International Agricultural Trade Report

**Weekly Market Report: Dairy, Livestock, & Poultry**

January 28, 2000

## Why U.S. Hog Prices Haven't Plummeted

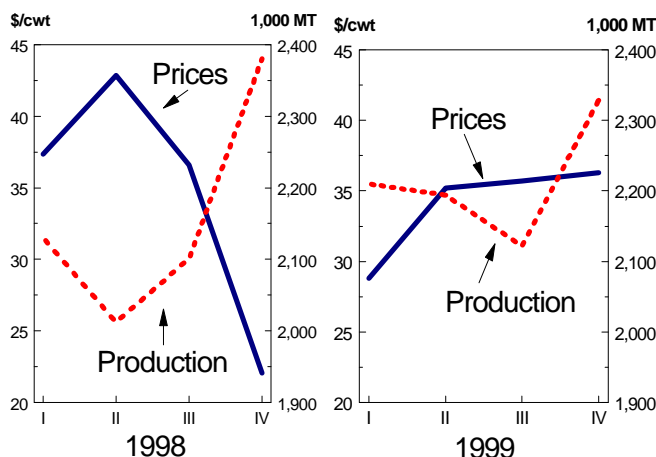
Price competitiveness of U.S. pork contributed to increased exports to major importers, including Korea and Mexico, in 1999. Going into 2000, overall pork exports are forecast to decline from 1999 levels, due primarily to poor prospects for sales to Russia, but there is underlying strength in exports to the recovering markets of Asia and Mexico that bodes well for the future.

In December 1998, U.S. live hog prices plummeted to 57-year lows of less than \$10/cwt. There was concern that prices would tumble again this winter, as fourth quarter pork production in 1999 was only 1 percent lower than during the same time period in 1998. However, at more than \$36/cwt, U.S. live hog prices in the fourth quarter of 1999 were 64 percent higher than 1998's fourth quarter prices. Factors supporting current hog prices include increased ability to accommodate high slaughter rates, more storage space, and stronger pork demand.

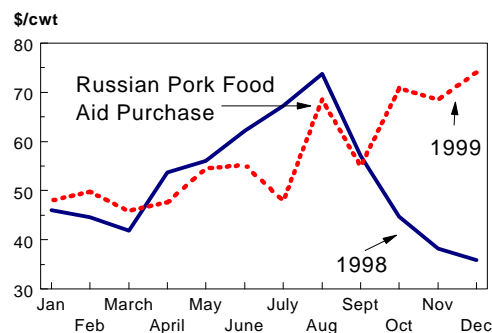
The collapse of U.S. hog prices in late 1998 came about when fourth quarter hog supplies strained slaughter capacity and was exacerbated by tight storage space. During the fourth quarter of 1998, producers were facing record high pork production and a forecast for a further 3-percent increase in production in 1999. As a result, hog prices were bid down.

Although slaughter capacity remains virtually unchanged, packers' ability to adjust to and accommodate large kills has improved. Slightly lower slaughter rates have staved off a collapse in hog prices by keeping slaughter within capacity. Packers also have more storage space for current pork output, as stocks are significantly lower. Frozen pork stocks on November 30 were 7 percent below 1998's levels, while pork belly stocks were 38 percent lower. Improved pork demand in the United States and abroad in 1999 pulled down stocks and also helped to support hog and pork prices. Prices are also benefitting from the forecast of a 4-percent

### Hog Prices and Pork Production



### Pork Belly Prices: 1998 vs. 1999



decline in pork production in 2000. Strong demand, increased storage space, and lower slaughter are underpinning the current strength in prices.

Higher pork belly prices, which contributed to more than half of the year-over-year increase in carcass values, were spurred by strong food service sector demand and by the purchase of bellies as part of the Russian food aid package. Pork bellies, which account for about 16 percent of the carcass by weight, have been prominent in restaurant featurings and promotions. Low prices earlier in 1999 helped stimulate demand, and, despite recent higher prices, sales continue to be strong. Pork prices also received support from stronger beef prices, which were nearly 7 percent higher in 1999 than during 1998 and especially in the fourth quarter when beef prices averaged 14 percent higher than during the fourth quarter of 1998.

This winter's relatively strong hog and pork prices are unlikely to slow the exodus of small producers from the hog sector in the long term. Furthermore, expansion by large producers has been outweighing the loss of production by small producers leaving hog farming. With aligned and contract producers comprising a growing share of hog production, packers are ensured a supply of hogs while participating producers are ensured a market. Shackle space for the hogs, a critical limiting factor in the packing plants, is increasingly taken up by aligned producers on a pre-arranged basis. As a result, the limited number of cash producers face more price volatility and take the hardest hit when capacity is stressed.

The search for improved productivity is driving the structural transformation of the industry and further integration, consolidation, and relocation is likely. An increasingly integrated hog/pork sector will continue to maximize output to lower unit production costs which, as demonstrated in 1998/1999, creates a situation where, in the short term, low hog prices are no longer sufficient justification to limit output. The increased productivity of the larger operations suggests that the industry is poised to expand and may do so as early as this year.

These changes in the economic and structural environment help U.S. pork to be price competitive in world markets, a necessity for the overall health of the U.S. pork industry.

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